

Message Text

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PAGE 01 CAIRO 13973 231646Z

ACTION NEA-10

INFO OCT-01 ISO-00 AID-05 CIAE-00 COME-00 EB-08 FRB-03

INR-07 NSAE-00 USIA-06 TRSE-00 XMB-02 OPIC-03

SP-02 LAB-04 SIL-01 OMB-01 DODE-00 PM-05 H-01

L-03 NSC-05 PA-01 PRS-01 SS-15 AGRE-00 /084 W

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FM AMEMBASSY CAIRO

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E.O. 11652: NA

TAGS: EGEN ECON EG

SUBJ: QAYSUNI ON SUBSIDIES

REF: CAIRO 13763

1. DEPPRIMIN QAYSUNI SPOKE TO PRESS AUGUST 22 IN BACKGROUND SESSION ABOUT GOE PRICE SUBSIDY PROGRAM. REDUCTION IN GOE SUBSIDIES HAS BEEN SUBJECT OF PUBLIC RELATIONS CAMPAIGN PAST FEW DAYS AS GOE CASTS ABOUT FOR WAYS TO REDUCE ONEROUS PRICE SUBSIDIES, REALIZING THAT THIS IS VOLATILE ISSUE WITH POLITICAL RISKS. QAYSUNI'S BACKGROUND INFORMATION ON COSTS OF SUBSIDIES IS MOST COMPLETE STATEMENT ON THE SUBJECT YET MADE PUBLIC AND IS REPORTED HERE IN DETAIL.

2. ACCORDING TO QAYSUNI DIRECT AS WELL AS INDIRECT SUBSIDIZATION COSTS EGYPT APPROXIMATELY 10 PERCENT OF GNP ANNUALLY. IN 1977 BUDGET FOR INSTANCE, QAYSUNI GAVE FOLLOWING BREAKDOWN OF DIRECT PRICE SUBSIDY COSTS: WHEAT - LE 123.7 M; FLOUR - LE 43.4 M; CORN - LE 27 M; BEANS - LE 12 M; LENTILS - LE 7 M; PETROLEUM AND PRODUCTS - LE 43M; MEAT - LE 29 M; TEA - LE 742,000; MISCELLANEOUS - LE 908,000; OTHER LOSSES ESTIMATED AT LE 25 M

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PAGE 02 CAIRO 13973 231646Z

WHICH ARE FUNDED IN SUPPLY MINISTRY BUDGET. OTHER 1977 SUBSIDIES, ACCORDING TO QAYSUNI TOTAL LE 67 M, INCLUDING; CAIRO PUBLIC TRANSIT AUTHORITY - LE 9.7 M; CAIRO-ALEXANDRIA RAILROAD PASSENGER TICKETS - LE 2 M; BUTAGAS - LE 10 M; POPULAR CLOTH - LE 16.3 M; VEGETABLES CROPS - LE 13 M; LUMBER - LE 3.5 M; NEWSPRINT - LE 4.5 M; STUDENT NOTEBOOKS - LE 2 M; EGYPTIAN GENERAL HOUSING COOPERATIVE - LE 295,000; EGYPTIAN GENERAL

AGRICULTURAL AND COOPERATIVE CREDIT AUTHORITY - LE 51,000.

3. DIRECT SUBSIDIES, ACCORDING TO QAYSUNI, ROSE FROM LE 9 M IN 1960 TO LE 20 M FOR FISCAL YEAR 1969-70. DIRECT SUBSIDIES FIGURE FOR SUCCEEDING YEARS AS GIVEN BY QAYSUNI ARE: 1970-71 - LE 39.8 M; 1971-72 - LE 57.1 M (THIS WAS 18 MONTH FISCAL YEAR, RUNNING FROM MID-1971 TO END 1972 WHEN GOE SWITCHED TO CALENDAR YEAR AS FISCAL YEAR); 1973 - LE 116.3 M; 1974-75 423.4 M; 1975 - LE 622 M; 1976 - LE 443.5 M; 1977 - LE 380.3 M.

4. QAYSUNI WENT ON TO EXPLAIN THAT IN ADDITION TO DIRECT SUBSIDIES, GOVERNMENT ALSO BEARS SUBSIDY BURDEN IN FORM OF LOSSES SUSTAINED BY PUBLIC SECTOR COMPANIES WHICH SELL GOODS AT PRICES BELOW PRODUCTION COSTS. SOME RAW MATERIALS (FOR EXAMPLE, COTTON AND PETROLEUM) PRODUCED AT PRICES CONSIDERABLY BELOW WORLD MARKET PRICE AND IN SOME CASES BELOW COST OF PRODUCTION. THIS REPRESENTS ADDITIONAL SUBSIDY.

5. ACCORDING QAYSUNI, THREE SUPPLY COMMODITIES ARE CURRENTLY BEING SOLD AT PROFIT. THEY ARE HALAWA (SWEET BAKING INGREDIENT MADE FROM SESAME), FROZEN MEAT AND SUGAR. SUBSIDIES ON HALAWA AND PARTIAL SUBSIDIES ON SUGAR WERE REMOVED PREVIOUSLY. FROZEN MEAT IS GENERALLY SOLD THROUGH PRIVATE SECTOR SHOPS AT PRICES WELL ABOVE THAT OF MEAT LIMITED OFFICIAL USE

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PAGE 03 CAIRO 13973 231646Z

AVAILABLE IN GOVERNMENT COOPERATIVES.

6. COMMENT: AS DEPARTMENT AWARE, THIS INFORMATION HAS BEEN MADE AVAILABLE TO IMF/IBRD BUT WAS NOT PREVIOUSLY AVAILABLE PUBLICLY. QAYSUNI'S STATEMENT IS EXAMPLE OF LENGTH TO WHICH GOE PREPARED GO TO EXPLAIN TO PUBLIC BURDEN OF CONTINUED SUBSIDIES. ITS HOPE IS THAT SUCH KNOWLEDGE WILL LEAD TO ACCEPTANCE OF PLANNED SUBSIDY CUTS. EILTS

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